



9 September 2015

Dior Loveridge
Senior Analyst, Financial Market Infrastructure
Australian Securities and Investments Commission
Level 5, 100 Market Street
Sydney NSW 2000

Dear Ms Loveridge

ASIC CONSULTATION PAPER 235 – PROPOSED AMENDMENTS TO ASIC MARKET INTEGRITY RULES AND INSTRUMENTS FOR THE CHI-X INVESTMENT PRODUCT MARKET

Thank you for the opportunity to provide comments on the amendments to the ASIC Market Integrity Rules ('MIRs') concerning the proposed Chi-X investment product market.

ASX supports ASIC's approach of ensuring the same conduct in relation to the same products is treated in the same manner for both the Chi-X and ASX market. We agree that it is important to maintain a level playing field between markets in respect of the requirements placed on participants of both markets, minimize the opportunity for regulatory arbitrage by participants, assist participants to comply with the new regulatory obligations and contribute to the efficient supervision and enforcement of the MIRs by ASIC by applying the same standards of conduct.

ASX supports the amendment of the MIRs so that the requirements in those rules apply to Chi-X warrants and exchange traded funds (ETFs) in the same way that they apply to ASX warrants and ETFs. We agree that accreditation and client agreement requirements should apply in relation to Chi-X warrants.

However, we are concerned that the proposed mutual recognition of ASX and Chi-X warrants accreditation requirements and client agreements does not ensure that clients are fully informed. To the extent that these arrangements deal with the general features of warrants they are adequate. However, additional arrangements are required to ensure that clients are aware of any differences between ASX and Chi-X rules and products, as the existing accreditation requirements and client agreements were developed for the ASX market. In particular, there should be an addendum to existing accreditation requirements to ensure that advisers to clients trading Chi-X warrants are able to provide advice on the differences between the ASX



and Chi-X warrants and market. Further, participants that seek to rely on an ASX warrants client agreement for clients trading Chi-X warrants should be required to obtain an acknowledgement from clients that they understand the differences between the ASX and Chi-X warrants and markets. Without these additional measures clients trading Chi-X warrants will not be properly informed about those products.

Please see our detailed comments on specific issues raised in the consultation paper in the attachment.

If you have any questions on this submission please contact: Sally Palmer, Deputy General Counsel, Trading

Yours sincerely,

Sally Palmer
Deputy General Counsel, Trading



ASX COMMENTS ON SPECIFIC PROPOSALS

#	Proposal	ASX position	Comments
B1	Cash market products: <i>Introduce the term 'cash market product' to the Chi-X MIRs</i>	Support amendment	ASX supports the amendment of the Chi-X MIRs so that they apply to an extended suite of products which include ETFs and warrants quoted on Chi-X. We consider that the introduction of the term 'cash market product' achieves this aim.
B2	Accredited derivatives advisers: <i>Include a new Part 2.4 to the Chi-X MIRs to ensure that advisers giving advice on warrants quoted and traded on Chi-X are accredited as either a Level One or Level Two accredited derivatives adviser (ADA)</i> <i>Q2 Does this proposal raise any compliance issues for market participants?</i>	Support amendment with modification	<p>ASX supports the accreditation requirements being applied to advisers in relation to Chi-X warrants. To ensure that clients are properly advised, it is important that advisers to clients trading Chi-X warrants have the same level of qualifications as advisers to clients trading ASX warrants. This requirement should apply from the date that the Chi-X warrants become available to clients.</p> <p>ASX does not object in principle to the mutual recognition of accreditation in relation to the general features of warrants. However, advisers on Chi-X warrants should complete an addendum to their existing accreditation to show that they understand any rule and product differences on the ASX and Chi-X markets, and can explain these differences to their clients.</p> <p>It would also be preferable if the accreditation requirements for ASX and Chi-X were self-contained, as this may be required if market operators seek recognition or approval of their products from global regulators in the future. Any potential administrative burden could be dealt with by transitional provisions to recognise accreditation in relation to the features of warrants, rather than mutual recognition. We are happy to discuss further how such transitional arrangements could be drafted.</p>
B3	Explanatory booklets and client agreement for warrants: <i>Each market operator should make available information to investors that is specific</i>	Explanatory booklet - Support amendment	ASX supports the requirement that an explanatory booklet be published by Chi-X and that participants be required to provide that booklet to clients trading Chi-X warrants. ASX's explanatory booklet contains detailed general information about warrants and trading warrants on the ASX market. It is important that the same level of information is available



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	<p><i>to trading warrants on their market. Participants are required to provide a clients with a market operator’s explanatory booklet before a client begins trading warrants on that market for the first time.</i></p> <p><i>Participants must obtain a client agreement for warrants but will be exempt if an ASX client agreement is in place.</i></p>	<p>Client Agreement – support amendment with modification</p>	<p>to clients trading warrants on the Chi-X market. As many clients will be familiar with the ASX market, the booklet should also set out any differences in rules or products on the Chi-X market.</p> <p>ASX also supports the requirement that participants obtain a written client agreement from retail clients that they acknowledge the features of warrants and have read the explanatory booklet. This is an important client protection measure to ensure that clients understand the products before trading.</p> <p>To the extent that the client agreement deals with the general features of warrants, recognition of an existing ASX client agreement is adequate. However, the ASX client agreement will not confirm that the client has received the Chi-X explanatory booklet. If a client trading Chi-X warrants has executed only an ASX client agreement the participant should also be required to obtain an acknowledgement that the client is aware of any differences in the rules and products on the Chi-X market.</p> <p>As with accreditation requirements, it would be preferable if client agreement requirements for ASX and Chi-X were self-contained, as this may be required if market operators seek recognition or approval of their products from global regulators in the future. Any potential administrative burden could be dealt with by transitional provisions to recognise client agreements in relation to the features of warrants, rather than mutual recognition.</p>
<p>B4</p>	<p>Third party execution and clearing arrangements: <i>Require participant to provide clients with a disclosure document about its third party execution and clearing arrangements if there are any material changes to these arrangements arising from the</i></p>	<p>Support amendment</p>	<p>ASX supports this proposal. It is important that clients are fully informed of any material changes to third party execution and clearing arrangements arising from the commencement of quotation and trading of ETFs and warrants on the Chi-X market.</p>



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	<i>commencement of quotation and trading of ETFs and warrants on the Chi-X market.</i>		
C1	Amendment to the ASIC Market Integrity Rules (Competition): <i>Amendments so that the same regulatory requirements will apply for market operators admitting warrants and ETFs and market participants trading these products, irrespective of the market on which the product is quoted or traded.</i>	Support amendment	ASX supports the amendment. Consistent regulatory settings should apply to warrants and ETFs whether they are admitted to quotation by ASX or Chi-X.
D2	Extending existing relief in [CO 13/721]: <i>Extend existing relief for ETFs from 1017B (On-going disclosure of material changes and significant events) to managed fund products admitted to quotation on the ASX market.</i>	Support proposal	ASX supports extending existing relief from s1017B to managed funds as well as ETFs on the ASX market, to enable disclosure about significant changes to be made by immediate disclosure through the market rather than through individual significant event notifications. We agree that the rationale for granting relief in relation to ETFs also applies to managed fund products. Extending the relief will reduce an unnecessary regulatory burden and remove the need for individual relief applications.
E1	Amendments to ASIC Market Integrity Rules (ASX) Definitions of ‘ETF’ and ‘managed fund’: <i>Amend the ASX MIRs to reflect the current definitions of ‘ETF’ and</i>	Definitions – support proposal	ASX supports amending the definitions of ‘ETF’ and ‘managed fund’ so that they are consistent with the current ASX Operating Rules and the products which can be quoted on the ASX market.



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	<p><i>'Managed Fund' in the ASX Operating Rules</i></p> <p>Recognition of Chi-X accreditation obligations and client agreements: <i>Mutual recognition of Chi-X arrangements in relation to warrants</i></p>	<p>Mutual recognition – support with modifications</p>	<p>To the extent that there is recognition of ASX accreditation obligations and client agreements in relation to Chi-X warrants, ASX agrees that there should be recognition for Chi-X accreditation obligations and client agreements in relation to ASX warrants. This is important to maintain a level playing field between the ASX and Chi-X markets.</p> <p>However, as discussed in sections B2 and B3 above, we consider that there should be some limits on the mutual recognition to ensure that clients are fully informed.</p>